

DISTRIBUTION NETWORKS PRICING CONSULTATION PAPER DNPC02

Transportation Charges for Interruptible Supply Points

1. Introduction

Under the proposed DN Interruption reform, as specified in Mod 0090, from 1 October 2010 all loads connected to the DN system will be firm by default and it is intended that the Distribution Networks will tender for interruption rights. Shippers to loads which are contracted to provide interruption services will receive payments from the DNs based on the bids submitted at the appropriate time. DNs will also be subject to an incentive regime, the details of which are yet to be finalised.

This paper proposes that if DN interruption reform, as specified in Mod 0090, is implemented then the current transportation charge discounts and payments relating to interruptible supply points should cease with effect from end of 30 September 2010.

2. Current Transportation Charging Arrangements in respect of Interruptible Supply Points

At present interruptible transportation is available to supply points with Annual Quantities (AQs) of over 5,860 MWh per annum. For supply points which have been nominated by a shipper as interruptible, the shipper will not pay the capacity element of the LDZ standard charge. Where the transporter nominates a supply point to be interrupted for more than 15 days in a particular year there is a transportation charge credit. For each day of interruption over 15 days, a transportation charge credit equivalent to 1/15 of the annual LDZ standard capacity charge avoided by having interruptible rather than firm transportation is payable to the shipper.

3. Rationale for Proposed Change to Charging Methodology

The present lower level of transportation charges for interruptible supply points relative to that for firm supply points is reflective in general of the lower level of system reinforcement that is required to support interruptible supply points compared to firm supply points.

Under the proposed DN Interruption reform, as specified in Mod 0090, from 1 October 2010 the DNs will make payments for loads contracted to provide interruptible services. The level of these payments will be determined through the commercial arrangements and will reflect to some extent the value placed upon the service by both the Shipper / User and the DN. For the DN, the value placed on the service will reflect the alternative cost, most likely of reinforcing the system, to support the load as a firm load.

Under the proposed new arrangements all supply points will be firm by default and the level of payments relating to any interruption service provided by a supply point will be determined through the commercial arrangements. It is therefore appropriate that firm transportation charges are payable in respect of all supply points and that the current transportation charge discounts and payments relating to interruptible supply points should cease from the end of 30 September 2010.

4. Objectives of the Charging Methodology

The proposal involves a change to the charging methodology, and therefore needs to be considered with respect to the achievement of the objectives of the charging methodology, set out in Standard Special Condition 5 of the Gas Transporter Licence. The objectives, where prices are not set by auction, are:

(a) that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business;

(b) that, so far as is consistent with (a), the charging methodology properly takes account of developments in the transportation business;

(c) that, so far as is consistent with (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers.

a) **Cost Reflectivity:** The change to the methodology in terms of the cessation of the transportation charge discounts and payments for interruptible supply points will better reflect the costs incurred since the default arrangement from 1 October 2010 will be that all supply points will be treated as having a right to firm transportation arrangements. The commercial arrangements for then offering back interruptible services will sit outwith this arrangement. The proposed charging structure will reflect this.

b) **Reflect Developments in the Transportation Business:** The change to the methodology takes account of the development in the transportation business, in that it is consistent with the change to the interruption regime proposed by UNC Modification Proposal 0900.

c) **Facilitate Competition:** The proposed change to the methodology will facilitate competition because it is visible to all industry participants. It also means all supply points will be treated on an equitable basis and charged as firm supply points and shippers will be able to bid to provide interruption to the DNs. The bidding mechanism will allow shippers to put their own value on the interruption services they offer to provide.

5. Proposal for Consultation

The DNs propose that, subject to implementation of UNC Modification 0090, the current transportation charge discounts and payments in respect of interruptible supply points should cease with effect from the end of 30 September 2010.

6. Timetable for Responses

Responses should be sent to enquiries@gasgovernance.com to be received by close of play on Friday, 2 March. The responses will be circulated to, and considered by, all the DNs.

If you wish your response to be treated as confidential please mark it accordingly.